

Iceland Minister of Transport and Local Government

Strasbourg, December 9, 2019

Thank you very much for inviting me to your meeting in Strasbourg.

It is an honor for me to be here and explain to you the current state regarding the Municipal level in Iceland and what we are doing to strengthen it.

This is the first time an Icelandic Minister has been invited to address this committee and it is therefore a special pleasure for me to be here today.

The current situation

I'm going to start by describing the Municipal level in Iceland, its structure and tasks, but first some information about my country. It makes it easier for you to put what follows in context.

Iceland has an area of about 103,000 km² and a population of around 357,000 with a density of 3,4 people per square kilometer – which makes it the most sparsely populated country in Europe.

Around 78% of the Icelandic population lives in the capital city, Reykjavik and its neighboring areas and towns (in ca 100 km radius).

90% of the population increase in Iceland in the last decade occurred there. 94% of the Icelandic population lives in urban areas.

63% of the Icelandic population live in the 7 municipalities in the capital area.

Strong municipalities

The status of the local governments in Iceland is generally strong. We have a similar system as the other Nordic countries.

Iceland has two administrative levels of government, the State and the municipalities. The municipalities are ruled according to the principle of uniformity: all municipalities possess the same legal status, without any differences in either responsibilities or resources.

The municipalities are responsible for about 33% of public spending and their tasks are many.

The main tasks are the operation of compulsory schools and kindergartens, social services including services for the disabled, youth and sport issues, environment and planning, and various projects related to infrastructure.

Education issues cover about half of their spending.

Local authorities in Iceland enjoy a great deal of fiscal autonomy compared to local authorities in most countries.

The municipalities are financed with their own income sources and tariffs. The largest single source of income is their own income tax, which is 65% of their total income. Real estate taxes are the second largest source of income, and then the municipalities receive contributions from the Municipal Equalization Fund, which is about 14% of the total income.

The financial situation of municipalities has been improving after the economic collapse of 2008, which was a major blow to the entire Icelandic nation.

However, after the financial crises, we imposed stricter fiscal regulation, as part of the new Local Government Act from 2011 - which states that no municipality may owe more than 150%

of their income. At that time there were about 30 municipalities above these limits in 2011, today none.

We are now looking into whether we should reduce these criteria further.

We had good cooperation with the Council of Europe and your predecessor - in working on creating these new financial rules. You launched a **Peer Review Group of Experts** that worked with the Ministry in Iceland and the Association of Local Government to review the financial section in the municipal Act. Thank you for that!

Some words on matters that are associated with democracy

Turnout in general election in Iceland is good compared to other countries.

But in the last municipal election, the turnout rate was just 68%, which is less than we have seen before. Participation in municipal election has been declining, which is a cause for concern.

It is also of concern that the turnout of voters of foreign nationals who have the right to vote was only 18%. The turnout of Nordic residents living in Iceland was just over 50%.

The gender status of elected members in municipal councils is almost equal. Women being 47% of council's members. In some municipalities, the majority are women, so we are happy with this trend.

However, we are concerned about the working condition of the elected council's members. We have seen a very large renewal (dropout), or close to 60% in two recent elections, and we can see that this is especially true of women and representatives in the smaller municipalities.

This is something we must look into in our future work.

In general, we can say that there is a lot of good things going on in the Icelandic local government system and the relations and collaboration with the state have been improving and we are determined to keep it that way.

The conclusion of the **Monitoring Committee from the Congress of Local and Regional Authorities in 2016** was - that Iceland has a satisfactory level of local democracy.

The report praised recent developments fostering local self-government, including the promotion of the involvement of local authorities in national decision-making and increased inter-municipal co-operation and citizen participation in local authorities.

Size and structure

However, there are several things that needed to be improved regarding the local government level in Iceland – as the Monitoring Committee pointed out.

Such as the fact that municipalities in Iceland are **too many** - and - too many of them **too small** regarding member of inhabitants. This fact weakens the local government level in general and limits what can be done to strengthen it and bring more power and tasks to the local community.

Therefore, the Monitoring committee urged the Icelandic government to investigate these issues more closely.

And what is the situation today?

- There are 72 municipalities, will be 69 from the middle of next year because recently 4 municipalities agreed in referendum - to merge

- More than half of the municipalities have fewer than 1,000 inhabitants, about 14 have less than 250 inhabitants and the smallest municipality in Iceland counts 38 inhabitants.
- Less than 5% of the country's total population live in municipalities with less than 1,000 inhabitants.
- Only six municipalities with more than 10,000 inhabitants and the country's largest municipality, the City of Reykjavik, have 130 thousand inhabitants.

It goes without saying that these are not strong administrative units - bearing in mind the level of responsibility they hold. They are - in my opinion - simply not sustainable bodies.

The Local Governments have solved this problem in various ways.

First, smaller municipalities participate in extensive inter-municipal cooperation. There are municipalities that purchase all mandatory services of neighboring municipalities or cooperate with them. This reduces democratic responsibility and increases the complexity level. It is difficult for democratically elected representatives to monitor or influence these tasks - and thereby carry out their duties on behalf of the voters.

Secondly, an extensive equalization system has been set up that brings funds - specifically to smaller municipalities. There are municipalities that receive up to half, even more - of their income - from the Equalization Fund. In my opinion, this is not an example of sustainability when a local government is so heavily dependent on the equalization system.

Too many of these small municipalities are also not socially sustainable in terms of the average age that just rises and the need and demand for services increases at the same time and it

is not possible to maintain an elementary school where the children are 2-3 - even none

Positive development

We have seen positive development the last decades as the number of municipalities have been going down. They were 229 in 1950, at the turn of the century, they were down to 120 and now they are 72 and will be 69 next year

But - Despite **that** - the main characteristic of the Icelandic system stubbornly remains - more than half of the municipalities have less than 1000 inhabitants and 1/3 have less than 500.

The small size of many municipalities contributes to explain why local government in Iceland has relatively few functions, in comparison with other Nordic countries, where local governments are entrusted with wide and important functions and a strong welfare state was built on strong local government

Reforms are needed

You have to change to stay the same – someone said.

In modern society the demand for services is great – there is an increased demand for professionalism in administration and for high quality and transparency in public services.

All this makes it necessary to re-evaluate the present arrangement. On this, politicians in Iceland have agreed - but disagreed about solutions. We have been debating this question for the past decades.

When I took over as Minister of Local Government two years ago, several proposals had recently been presented on how to go forward with reforms.

The three main proposals were:

- **First**, the government should develop a clear, long-term policy regarding the municipalities that included main issues related to them, as tasks, financial sustainability and the relations with the state.
- **Secondly**, to set a provision in the Local Government Act defining the minimum size of municipalities as of 1.000.
- **Thirdly**, portion of the revenue of the Municipality Equalisation Fund should be used to facilitate amalgamations.

The proposals - prepared by a Joint Committee of State and Local Authorities - were presented following extensive consultations throughout the country and numerous meetings with local government officials.

I liked those ideas and immediately put in motion efforts to amend the Local Government Act to make the first proposal come through.

Now, the ministry shall at least every three years submit to the Alþingi proposals for **parliamentary resolution** laying out the Strategic Policy for the Municipalities in Iceland for the following fifteen years, containing a five-year action-plan to make sure that the goals are obtained.

Policy shaping

When the legislative changes had taken place - around the end of last year, I appointed a working committee that was given the task of drafting this new policy plan.

The chairman of the committee is an experienced local councilor from a small municipality in the north of Iceland. The chairman of the Association of Local Government, who is the mayor of a medium-sized municipality in the south and the

mayor of Reykjavik were part of the committee. The ministry's experts worked with the committee.

The committee worked fast and well. They could rely on recent data and analyzes that had been processed over the past 2 - 3 years.

In May this year - the committee sent out a **Green Paper** - A status rapport of the local government level and description of the challenges it faces and - proposed various measure.

The Green Paper was open for consultation in the Governments consultation portal until the end of June, and at the same time the working group held meetings in all parts of the country and met with representatives from all municipalities in the country.

Then - the committee drafted a **White paper – in a form of a draft parliamentary resolution** – with concrete proposals. And it was available in the consultation portal from mid-August to September 10.

The draft was then presented to an extra ordinaire Congress of Association of Local Government where it was discussed in detail and received overwhelming voting support.

The main proposals

The main goals of this Policy are twofold:

- **Firstly**, Local Governments in Iceland should become a powerful and sustainable platform for democratic activities;

and **secondly**

- Respect for local self-government and their responsibility and ensuring equal rights and access for residents to services.

Various actions are defined to achieve this goal, including:

- to strengthen the conditions of elected representatives,
- to improve relations between state and local authorities,
- and large-scale effort for better utilization of digital technologies for providing services and involvement of the citizens in local affairs.

To make this possible the number of municipalities must be reduced and the tasks that they must be able to fulfil autonomously must be clearly defined.

The most noticed proposal in the resolution is that a minimum population will again be set in the Local Government Act and that it will be 250 by the election 2022 and 1000 by the elections in 2026.

That means that all municipalities with fewer residents will have to amalgamate before 2026.

And as I mentioned earlier, more than half of the municipalities have less than 1000 residents. Therefore, this would have a significant impact on the number of municipalities – the number would be close to 30 in total after this reform.

Alpingi has the final word

A proposal for a Parliamentary resolution laying out this policy was submitted to the Parliament – Alþingi – in the beginning of October. If the Parliament approves it, which I hope will be before the end of this year, then subsequently a new bill or an amendment to the Local Government Act will be put forward which implements this new policy.

In my opinion, the benefits of this unique operation are great and will with no doubt strengthen the local democracy in Iceland.

Economic gain (or impact) will also be considerable. A new analysis suggests that financial benefits following this action could range from three and a half to five billion kroner per year. That money could be used to improve services for children and adolescents or pay down debt, thereby reducing costs.

I will allow myself to say that here is one of the most interesting proposals for public administration reform in the long term, as the policy and its measures involves a comprehensive approach to the future of the local government level.

This has been worked out and achieved in close cooperation between the state and the municipalities, and after an extensive consultation and dialogue throughout the country.

I would like to end my speech by showing you a short video which presents the main objectives of this important and timely reform and illustrate the positive effects of it for the municipalities and regional affairs as well.